



## THE CITY OF SAN DIEGO **MANAGER'S REPORT**

**DATE ISSUED:** June 2, 2004 **REPORT NO.** 04-119

**ATTENTION:** Honorable Mayor and City Council, Docket of June 8, 2004

**SUBJECT:** Revision to Water Fees and Charges

**REFERENCES:** Summary of Proposed Water Rates (Attachment A)

### **SUMMARY**

**Issue** - Should the City Council adopt a resolution which revises presently existing water fees and charges to enhance ratepayer equity and encourage water conservation.

**Manager's Recommendation** - Adopt the resolution.

**Other Recommendations** – The City of San Diego Public Utilities Advisory Commission (PUAC) recommends adoption of the revisions to the water fees and charges (See Attachment B).

**Fiscal Impact** – There would be no fiscal impact from the revisions to the water fees and charges since they are designed to be revenue neutral in the aggregate.

### **BACKGROUND**

#### **Water-Related Proposition 218 Issues**

In November 1996, California voters adopted Proposition 218, the Right to Vote on Taxes Act, which added articles XIII C and XIII D to the California Constitution. Article XIII D of the state Constitution specifies various restrictions and requirements for assessments, fees, and charges that local governments impose on real property or on persons as an incident of property ownership. This initiative changed the way the public is notified of proposed fee increases. Specifically, it requires that notices be mailed to all property owners of record at least 45 days in advance of the date on which a proposed property related fee increase may be adopted.

From time to time the assumed applicability of Proposition 218 to water fees and charges has changed. A recent decision of the California Supreme Court held that water rates are subject to

the requirements of Proposition 218. The City Attorney has advised that the appropriate course of action going forward is to comply with the property-related fee provisions of Proposition 218, including noticing the property owners of record of proposed water rate increases.

Consistent with current Proposition 218 case law, the Water Department mailed approximately 345,400 notices of today's hearing to every affected property owner of record during the week of April 19, 2004.

### **Water Fees and Charges**

On April 30, 2002, the City Council directed the City Manager to conduct a water cost of service study. The City once again retained the services of Black & Veatch to perform the work, and the study was completed and submitted to the Public Utilities Advisory Commission for review in October, 2003.

### **DISCUSSION**

#### **Proposed Revisions To Water Fees and Charges Pursuant To Completion Of A Cost Of Service Study**

Pursuant to direction of the City Council, Black & Veatch conducted a water cost of service study ("Study") for the Water Department. The Study, based on accepted industry standards, suggested changes to the presently existing water rate structures for retail water customers which would more equitably recover the annual cost of service based upon each customer class paying their proportionate share of total costs.

The first change would be the creation of a new user class called "Irrigation & Construction." This user class would be charged a unique cost-of-service based commodity rate that more accurately reflects and recovers the cost of serving these customers. The second recommendation is that the base fee cost differential between small and large meters be reduced, and that the overall base fee level be reduced to a level consistent with that recommended by the American Water Works Association. The lower revenue resulting from the base fee reductions necessitates higher commodity charge levels to maintain full cost recovery. These changes are outlined in Table 3 below:

<b>Table 3: MONTHLY WATER FEES AND CHARGES FOR JULY 1, 2004</b>		
<b><u>Meter Size</u></b>	<b><u>Base Fees</u></b>	
	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
Less than 1 inch	13.08	7.64
1 Inch	13.97	11.31
1 1/2 Inch	62.52	19.69
2 Inch	96.24	30.24
3 Inch	345.44	54.90

4 Inch	576.30	90.14
6 Inch	1,286.28	176.97
8 Inch	1,733.10	282.43
10 Inch	2,323.85	405.85
12 Inch	3,232.55	754.13
16 Inch	5,394.93	1,322.24
<b><u>Commodity Charges</u></b>		
<b><u>Customer Class</u></b>	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
<u>SFD</u>		
0-7 HCF	\$ 1.487	\$ 2.018
8-14 HCF	1.884	2.244
Over 14 HCF	2.076	2.758
<u>General Service</u>		
Other Domestic	1.737	2.160
Commercial	1.737	2.160
Industrial	1.737	2.160
Temp. Constr.	N.A.	2.338
Irrigation	N. A.	2.338

The proposed changes in water fees and charges have the effect of reducing the fixed portion of customers' bills while increasing the usage component. This approach benefits low volume residential water users such as certain seniors and low income ratepayers whose water use is low; it does so by shifting more of the financial burden to high volume residential water users. It also offers the additional benefit of encouraging conservation by providing a material incentive to reduce consumption. Low volume commercial and industrial customers also benefit from these changes, while high volume users in these classes will pay more. They will, however, have a similar consumption-based incentive to conserve.

Should the City Council adopt the proposed changes, the previously adopted revenue increases for July 1, 2005 and July 1, 2006 will be 6% each year with the revenue increases applied on an equivalent percentage basis to the base fees and to the commodity charges for all meter sizes and customer classes. If the proposed method is not adopted, the allocation of the revenue increases which was originally approved by the City Council on April 30, 2002 will not change. Tables 4 and 5 illustrate the rates that would become effective under both scenarios on July 1, 2005 and July 1, 2006, respectively.

<b>Table 4: MONTHLY WATER FEES AND CHARGES FOR JULY 1, 2005 *</b>		
<b><u>Meter Size</u></b>	<b><u>Base Fees</u></b>	
	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
Less than 1 inch	\$ 14.28	\$ 8.10
1 Inch	15.27	11.99

1 1/2 Inch	68.30	20.87
2 Inch	105.14	32.05
3 Inch	377.39	58.19
4 Inch	629.61	95.55
6 Inch	1,405.26	187.59
8 Inch	1,893.42	299.38
10 Inch	2,538.80	430.20
12 Inch	3,531.56	799.38
16 Inch	5,893.96	1,401.57
<b><u>Commodity Charges</u></b>		
<b><u>Customer Class</u></b>	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
<u>SFD</u>		
0-7 HCF	\$ 1.553	\$ 2.139
8-14 HCF	1.968	2.379
Over 14 HCF	2.168	2.923
<u>General Service</u>		
Other Domestic	1.814	2.290
Commercial	1.814	2.290
Industrial	1.814	2.290
Temp. Constr.	1.814	2.478
Irrigation	1.814	2.478

\*This table reflects the effect of the City rate increases only.

<b>Table 5: MONTHLY WATER FEES AND CHARGES FOR JULY 1, 2006 *</b>		
<b><u>Meter Size</u></b>	<b><u>Base Fees</u></b>	
	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
Less than 1 inch	\$ 15.37	\$ 8.59
1 Inch	16.43	12.71
1 1/2 Inch	73.48	22.12
2 Inch	113.12	33.97
3 Inch	406.03	61.68
4 Inch	677.39	101.28
6 Inch	1,511.92	198.85
8 Inch	2,037.13	317.34
10 Inch	2,731.50	456.01
12 Inch	3,799.61	847.34
16 Inch	6,341.31	1,485.66

<b><u>Customer Class</u></b>	<b><u>Commodity Charges</u></b>	
	<b><u>Existing Method</u></b>	<b><u>Proposed Method</u></b>
<b><u>SFD</u></b>		
0-7 HCF	\$ 1.634	\$ 2.267
8-14 HCF	2.071	2.522
Over 14 HCF	2.281	3.098
<b><u>General Service</u></b>		
Other Domestic	1.909	2.427
Commercial	1.909	2.427
Industrial	1.909	2.427
Temp. Constr.	1.909	2.627
Irrigation	1.909	2.627

\*This table reflects the effect of the City rate increases only.

### **Future Cost Of Service Studies – Frequency and Rationale**

Water Cost of Service studies should be conducted periodically or when there are physical changes in the system or their operation that materially impact the allocation of operation, maintenance and replacement costs between the utility's cost centers.

### **CONCLUSION**

Adoption of the revisions to the existing water fees and charges will enhance ratepayer equity while reducing bills for low volume users and providing a conservation incentive to all.

### **ALTERNATIVE**

Do not approve the requested actions.

Respectfully submitted,

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RICHARD MENDES  
Deputy City Manager

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Attachment: [A. Summary of Proposed Water Rates](#)  
[B. Public Utilities Advisory Commission Resolution Number PUAC-2004-05](#)